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C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 001566

SIPDIS

DEPARTMENT FOR S/EEE RICHARD MORNINGSTAR

E.O. 12958: DECL: 10/28/2019
TAGS: ENRG EPET PREL TU
SUBJECT: TURKEY'S SEARCH FOR A PLAN B ON NATURAL GAS

REF: 1997 STATE 153545

Classified By: Economic Counselor Dale Eppler for reason 1.4 (b,d).

¶1. (C) SUMMARY: As negotiations with Azerbaijan have stalled -- in Turkey's view, because of Azeri pique over its rapprochement with Armenia -- the GoT has been actively developing its options for a short to medium term natural gas picture without a deal with Azerbaijan. It believes that having a credible Plan B will make the Azeris more reasonable in their ongoing negotiations, and also provide Turkey a real alternative if negotiations fail. But all of the plan-B options carry significant challenges - technical, financial and/or political. Russia presents the most ready alternative, though over-dependence on Russia remains a concern, and increasing supplies via Blue Stream would require delivery infrastructure investments. Iraq is the second most likely alternative. Turkey and Iraq signed an MOU on October 16 to develop an export gas corridor but no gas is yet being exported. The GOT also is looking at other alternatives - Turkmenistan, Kazakhstan, Iran, and Qatar -- but none of these appears promising in the near term. PM Erdogan and Energy Minister Yildiz reaffirmed Turkey's commitment to develop the South Pars field during their October 27 visit to Tehran, but Turkish Petroleum (TPAO) has been frustrated with its inability reach agreement with the Iranians even on technical issues over the past year. Similarly, Erdogan signed an MOU in Tehran reviving the decade-old idea of transiting Turkmen gas through Iran. Coming just days before going back to the negotiating table with the Azeris, this likely is intended as another signal that Turkey has alternatives to Azerbaijan. End summary.

Politics Stall Turk-Azeri Negotiations

¶2. (C) The Azeris will arrive in Ankara October 28 for the next round of negotiations on Shah Deniz gas. Although Energy Minister Yildiz told the press October 27 that he remains hopeful of reaching a deal shortly, all indications -- including those from MFA and Ministry of Energy officials -- are that the negotiations are not going well. Undersecretary of Energy Kilci told econ counselor and econ officer on October 15 that the negotiations had stalled for political reasons, alluding to Nagorno-Karabakh and the recent protocol signing with Armenia. Kilci said it has been hard to convince the Azeris "they're our good friends and brothers." Despite hopes earlier in the year of completing the negotiations by September, Kilci said the process is now "back where it started." Similarly, MFA Energy Department Head Berris Ekinci said October 20 that a gas deal with Azerbaijan is unlikely given the current state of bilateral relations.

Formulating a Plan B

¶3. (C) Although Turkey has not given up on negotiations with the Azeris, the GoT believes it needs to have an alternative to Azeri gas. The GoT began working on its alternative supply options several months ago. Minister Yildiz told Ambassador Jeffrey in August that they were looking for additional supplies from various potential supplier countries. Now that the negotiations with Azerbaijan have stalled, Turkish officials seem increasingly committed to having a plan B in place -- both as a credible alternative to use as leverage in the negotiations with the Azeris and to employ should those negotiations finally fail.

Russia: The Most Ready Alternative

¶4. (C) For the short term, Russia is the most likely source. During Russian President Putin's visit to Ankara in August, the two countries agreed to extend the West-1 Line contract, though most details were left unspecified. Through the Blue Stream pipeline, Turkey last year received 9 bcm of gas, leaving about 40 percent of the line's 16-bcm capacity available. The problem with Blue Stream, however, is getting the gas from the entry point near Samsun to the high-demand area of western Turkey. According to Berris Ekinci, head of the MFA Energy Department, infrastructure investments would be needed to send any increased volumes west from Blue Stream.

¶5. (C) Turkey continues to pursue Russian gas as a potential supply for transit as well. Kilci told us the GoT remains interested in Blue Stream II. Statements from Putin's August

visit indicate Blue Stream II would target eastern Mediterranean markets. As the Turks frequently raise the option of Russian gas for Nabucco, however, they may also eye Blue Stream II as the feed-in route. Kilci told us that after five days of meetings with the Russians, he personally believes the Russians are growing more interested in Blue Stream II as a cheaper and easier option than South Stream. He said although Blue Stream II would not help Russia diversify its export routes, "Russia must realize the fact that Turkey is the most reliable route among its choices."

¶6. (C) Although Russia represents the most ready supply, Turkey remains cautious of raising its dependence on Russia too greatly. Emre Engur, head of the Strategic Development and International Projects Department at the State Pipelines Company (BOTAS), recently commented to econ officer that the U.S. support for diversity of supply is important because Turkey and Europe need Iraqi, Iranian, and Turkmen gas. He said if these countries do not sell to Turkey, they will sell to Russia, and then Russia will resell to Turkey and Europe.

Iraq: Big Hopes and Small Steps

¶7. (C) On October 15 in Baghdad, Yildiz and Iraqi Oil Minister Shahrastani signed a memorandum of understanding (MOU) on development of a gas export corridor. According to Ekinci, the document says the parties will explore ways to export gas to and through Turkey. Despite the MOU's focus on intent, Ekinci said it is an important step forward, as it is their first natural gas MOU with the Iraqis, who have been very cautious about making any commitments on natural gas. She also noted that at the most recent meeting on the Caspian Development Corporation (CDC) in Brussels, the European Commission discussed applying the CDC model to the Iraqi market as well.

¶8. (C) Industry representatives are also encouraged by prospects in Iraq. At a meeting October 15, Serhat Inanc, deputy general manager of Turkerler Construction gave econ officer and econ specialist an update on Turkerler operations in northern Iraq. He said they are currently producing 2-3

bcm from the Chamchamal and Kormor fields. The supply goes to two power stations in Iraq; none is exported as of yet. Inanc estimated, however, that the two fields could easily produce 30 bcm, perhaps as much as 60 bcm. He added that new estimates for the country as a whole suggest supplies that could top a trillion cubic meters.

Iran, Turkmenistan, Qatar: The Best of the Rest
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¶9. (C) The GoT and GoI agreed in 2007 that Turkish Petroleum (TPAO) would produce an annual 20 bcm from Iran's South Pars gas field. That MOU was set to expire next month but was extended during PM Erdogan and Yildiz's visit to Tehran October 26-27. In press statements from the visit, Yildiz said Turkey will move forward with its $3.5 billion natural gas development plans in Iran. He said TPAO would begin exploration in South Pars next month and half of the expected supplies from production would be re-exportable to Europe. In contrast, however, both Ekinci and TPAO Vice President Murat Altiparmak told us making progress with Iran has been difficult. Ekinci said that political issues aside, they have not even been able to reach agreement on technical issues such as insurance after 11 months of talks.

¶10. (C) Regarding Turkmenistan, Ekinci said Turkmen participation at the recent CDC meeting was an encouraging sign. The Turkmen ambassador at the meeting informed the Commission that Turkmenistan was interested in the project. In contrast, Ekinci noted, Azerbaijan also sent an embassy representative but he did not express interest in the CDC on behalf of his country. Ekinci also reminded us that Azerbaijan may pose an obstacle for getting Turkmen gas to Turkey, as the GoT assumes Azerbaijan would not allow Turkmen gas to transit its territory to Turkey until an agreement is reached on Shah Deniz and transit. Comment: That assumption is likely one of the factors that prompted the GOT to reaffirm the decade-old plan to transit Turkmen gas across Iran to Turkey during Erdogan's visit to Tehran.

¶11. (SBU) Qatar gas supplies remain a possibility for Turkey as well. Ekinci told us they have taken some concrete steps regarding liquefied natural gas (LNG) and are still considering a pipeline (across Saudi Arabia to connect to the Arab pipeline). Given the length of the pipeline needed,

however, she considers that project a long-term possibility.

Comment

¶12. (C) It remains unclear how much of Turkey's effort to secure these various gas supplies is a negotiating strategy with Azerbaijan and how much is aimed at building a ready, feasible plan B. Regardless of the true intent, all of the plan-B options carry significant challenges, technical, financial and/or political. Despite Yildiz's assured statements to the press on increasing cooperation with Iran, there is little to indicate that TPAO is any more likely to conclude negotiations on South Pars than it was over the past year. Similarly, the GOT has been signing MOUs on a trans-Iran transit pipeline for Turkmen gas since the mid-1990's (reftel) without a single meter of pipe being laid. However, publicly reviving the option of transiting Turkmen gas through Iran just days before returning to the negotiating table with the Azeris does allow the Turks to signal that it has alternatives to Azeri gas and to Azeri transit.

JEFFREY

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